

NATIONAL DAIRY MARKET AT A GLANCE

CHICAGO MERCANTILE EXCHANGE (CME) CASH MARKETS (7/29)
BUTTER: Grade AA closed at \$1.5900. The weekly average for Grade AA is \$1.6008 (+.0075).

CHEESE: Barrels closed at \$1.3650 and blocks at \$1.3900. The weekly average for barrels is \$1.4280 (+.0015) and blocks, \$1.4500 (-.0145).

BUTTER: The cash butter price remains mixed as the price continues to adjust higher and lower. Heat and humidity levels across the country are sharply reducing the fat levels on milk receipts. Cream volumes for churning have declined as milk production declines and Class II cream demand remains strong. In coming weeks, standardized cream volumes are expected to enter the market as school bottling schedules resume. Churning schedules are active for this time of the season, although demand continues to outpace current output. Often, butter inventories are being used to fill needs. CME stocks are trailing last year by 13.7 million pounds. Quota butter imports for the first six months of the year total 9.1 million pounds, down 11.9% from the same period last year. Imports have reached nearly 60% of the annual quota. Imports of high tier (above quota with a penalty) butter total only 331,000 pounds compared to 14.1 million pounds last year. Retail sales are fair and food service orders are steady.

CHEESE: The cheese market is weak. Current demand is generally fair on natural and moderate on process. Some traders wonder whether prices could weaken sufficiently to generate export activity from the C.W.T. program. Though with schools starting to reopen in Southern systems in early August, bottlers need larger milk volumes and will pull supplies from manufacturers. For many producers, the current order slowdown helps build cushion stocks for late summer and early fall needs. Elevated heat and/or humidity have caused sharp declines in milk receipts, though temperatures have since moderated. Seasonally lower fat and protein levels in incoming milk supplies also have reduced the cheese yield per vat.

FLUID MILK: With the exception of the Pacific Northwest, milk production is falling. The heat wave that covered much of the country during July has stressed the cows from Coast-to-Coast. Production declines of 10-15% from late-June/early-July levels were common. Early this week some areas did get a break in the weather, but the milk flow has not rebounded to any great degree. Fat and protein tests (yields) on incoming milk are generally lower. Class I milk demand is starting to improve. In some Southeastern states, schools will be back in session next week and bottlers in those areas are processing more milk. Surplus milk supplies are often tighter and manufacturing plants were able to reduce operating schedules, some quite dramatically. The fluid cream market is firm. Offerings are tightening rather quickly and some suppliers are scrambling to cover their needs.

DRY PRODUCTS: The NDM market is firming, particularly on the supply side of the market. The decline in surplus milk volumes means less drying and tighter availability. Current production is barely keeping pace with sales and most producers have little or no uncommitted powder "on

the floor" at this time. Demand for both export and domestic sales remains quite good. The dry whey market is mostly steady. Output is slowing as less milk is available to some cheese makers. Stocks are tight at the producer levels and spot demand is reported as just fair. The WPC market is also steady and prices are unchanged. Reports did indicate that some extra 34% for animal feed was being offered this week and it cleared satisfactorily. The lactose market remains firm. Offerings are light and demand is steady.

CCC: During the week of July 25 - 29, there was no price support activity.

COLD STORAGE (NASS): On June 30, U.S. cold storage holdings of butter totaled 181.9 million pounds, 3.9% less than a month ago but 2.2% more than a year ago. Natural American cheese holdings total 577.6 million pounds, 2.2% less than a month ago and unchanged from a year ago. Nonfat dry milk holdings at the end of May total 257 million pounds, 19 million pounds less than last month and 557 million pounds less than last year. The government holds 57.2% of the total nonfat holdings.

WORLD DAIRY SITUATION AND OUTLOOK (USDA, FAS): Global dairy markets continue to be stable as international dairy commodity prices, reflecting the relatively tight supply situation and strong import demand, hold firm. Three key factors have played a role in the evolution of this situation: exchange rates, particularly the decline in the value of the U.S. dollar have increased European Union export prices; lower than anticipated milk production in Oceania; and reduced exportable supplies in the EU. Although the dollar has lately strengthened, world dairy prices resisted any declines as the EU embarked on a round of aggressive export restitution cuts in response to a well balanced domestic market and budgetary pressures. Prospects for the remainder of 2005 point to continued strength in international dairy prices despite the upcoming milk production season in Oceania. Consequently, while the upcoming Oceania production wave may provide some temporary relief, global dairy prices will likely remain strong for this year and probably the early part of 2006. The implication for U.S. dairy exporters is positive as the boom in U.S. exports, particularly nonfat dry milk, will likely be sustained throughout the remainder of this year and into 2006.

COMMERCIAL DISAPPEARANCE (ERS, AMS): Commercial disappearance of dairy products during the first five months of 2005 totals 71.53 billion pounds, 0.4% above the same period in 2004. Comparing disappearance levels with year earlier levels: butter is -3.1%; American cheese, -1.2%; other cheese, +3.1%; NDM, -0.1%; and fluid milk products, -0.2%.

CONSUMER PRICE INDEX (BLS): The CPI for all food is 190.4, up 2.2% from June 2004. The dairy products index is 181.0, down 4.1% from a year ago. The following are the June-to-June changes for selected products: fresh whole milk is -10.5%; cheese, -1.7%; and butter, -14.2%.

****SPECIALS THIS ISSUE****

JUNE COLD STORAGE HOLDINGS (PAGES 7-8)
 AUGUST FEDERALE ORDER ADVANCE PRICES (PAGE 9)
 AUGUST ANNOUNCED COOPERATIVE CLASS I MILK PRICES (PAGE 10)

WORLD DAIRY SITUATION AND OUTLOOK (PAGES 11-12)
 JUNE CONSUMER PRICE INDEX (PAGE 13)
 COMMERCIAL DISAPPEARANCE (PAGE 13)

**CHICAGO MERCANTILE EXCHANGE
CASH TRADING**

PRODUCT	MONDAY JULY 25	TUESDAY JULY 26	WEDNESDAY JULY 27	THURSDAY JULY 28	FRIDAY JULY 29	WEEKLY CHANGE*	WEEKLY AVERAGE#
CHEESE BARRELS	\$1.4550 (+.0525)	\$1.4550 (N.C.)	\$1.4550 (N.C.)	\$1.4100 (-.0450)	\$1.3650 (-.0450)	(-.0375)	\$1.4280 (+.0015)
40# BLOCKS	\$1.4750 (+.0325)	\$1.4750 (N.C.)	\$1.4650 (-.0100)	\$1.4450 (-.0200)	\$1.3900 (-.0550)	(-.0525)	\$1.4500 (-.0145)
BUTTER GRADE AA	\$1.6225 (+.0325)	----	\$1.5900 (-.0325)	----	\$1.5900 (N.C.)	(N.C.)	\$1.6008 (+.0075)

CHEESE: carload = 40,000-44,000 lbs., BUTTER: carlot = 40,000-43,000 lbs. *Sum of daily changes. # Weekly averages are simple averages of the daily closing prices for the calendar week. Computed by Dairy Market News for informational purposes. This data is available on the Internet at WWW.AMS.USDA.GOV/MARKETNEWS.HTM NOTE: CME NDM on Page 2.

CHICAGO MERCANTILE EXCHANGE

MONDAY, JULY 25, 2005

CHEESE — SALES: 9 CARS 40# BLOCKS: 1 @ \$1.4600, 3 @ \$1.4625, 2 @ \$1.4700, 3 @ \$1.4725; BIDS UNFILLED: 1 CAR BARRELS @ \$1.4550; 7 CARS 40#BLOCKS: 2 @ \$1.4750, 1 @ \$1.4675, 1 @ \$1.4525, 2 @ \$1.4500, 1 @ \$1.4425; OFFERS UNCOVERED: NONE

BUTTER — SALES: 15 CARS GRADE AA: 3 @ \$1.6000, 1 @ \$1.6100, 1 @ \$1.6175, 5 @ \$1.6200, 1 @ \$1.6225, 1 @ \$1.6200, 1 @ \$1.6225, 1 @ \$1.6250, 1 @ \$1.6225; BIDS UNFILLED: 13 CARS GRADE AA: 2 @ \$1.6175, 2 @ \$1.6100, 2 @ \$1.6050, 1 @ \$1.6025, 2 @ \$1.6000, 1 @ \$1.5975, 2 @ \$1.5925, 1 @ \$1.5900; OFFERS UNCOVERED: NONE

TUESDAY, JULY 26, 2005

CHEESE — SALES: NONE; BIDS UNFILLED: 1 CAR 40# BLOCKS @ \$1.4750; OFFERS UNCOVERED: NONE

WEDNESDAY, JULY 27, 2005

CHEESE — SALES: 2 CARS 40# BLOCKS: 1 @ \$1.4750, 1 @ \$1.4650; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 2 CARS 40# BLOCKS: 1 @ \$1.4650, 1 @ \$1.4675

BUTTER — SALES: 19 CARS GRADE AA: 1 @ \$1.6125, 1 @ \$1.5925, 1 @ \$1.5950, 1 @ \$1.5900, 1 @ \$1.5800, 1 @ \$1.5775, 1 @ \$1.5800, 2 @ \$1.5775, 2 @ \$1.5825, 1 @ \$1.5800, 4 @ \$1.5825, 1 @ \$1.5850, 1 @ \$1.5875, 1 @ \$1.5900; BIDS UNFILLED: 3 CARS GRADE AA: 2 @ \$1.5825, 1 @ \$1.5800; OFFERS UNCOVERED: 12 CARS GRADE AA: 1 @ \$1.5925, 1 @ \$1.5950, 3 @ \$1.6000, 2 @ \$1.6075, 1 @ \$1.6150, 2 @ \$1.6175, 1 @ \$1.6225, 1 @ \$1.6250

THURSDAY, JULY 28, 2005

CHEESE — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.4100; 1 CAR 40# BLOCKS @ \$1.4450

FRIDAY, JULY 29, 2005

CHEESE — SALES: 7 CARS 40# BLOCKS: 1 @ \$1.4075, 1 @ \$1.4050, 1 @ \$1.4025, 1 @ \$1.4000, 1 @ \$1.3950, 2 @ \$1.3925; BIDS UNFILLED: 1 CAR BARRELS @ \$1.3600; 1 CAR 40# BLOCKS @ \$1.3850; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.3650; 8 CARS 40# BLOCKS: 1 @ \$1.3900, 1 @ \$1.3975, 4 @ \$1.4000, 1 @ \$1.4150, 1 @ \$1.4450

BUTTER — SALES: 21 CARS GRADE AA: 1 @ \$1.5675, 1 @ \$1.5700, 1 @ \$1.5725, 1 @ \$1.5800, 1 @ \$1.5825, 3 @ \$1.5850, 2 @ \$1.5875, 1 @ \$1.5900, 1 @ \$1.5875, 1 @ \$1.5850, 1 @ \$1.5875, 2 @ \$1.5900, 1 @ \$1.5925, 1 @ \$1.5850, 1 @ \$1.5950, 1 @ \$1.5850, 1 @ \$1.5950; BIDS UNFILLED: 7 CARS GRADE AA: 1 @ \$1.5775, 1 @ \$1.5750, 1 @ \$1.5675, 2 @ \$1.5600, 2 @ \$1.5000; OFFERS UNCOVERED: 1 CAR GRADE AA @ \$1.5900

CME CASH NONFAT DRY MILK: Extra Grade closed the week at \$0.9625 and Grade A at \$0.9825. (The last price change occurred March 30.) The weekly average for Extra Grade is \$0.9625 (N.C.) and Grade A is \$0.9825 (N.C.).

BUTTER MARKETS

JUNE COLD STORAGE

According to NASS, June month-ending cold storage figures for butter total 181.9 million pounds, 2.2% more than last June but 3.4% less than May 2005.

NORTHEAST

The butter market is firming and the AA price at the CME has (through 7/25) rebounded 6.25 cents in the last two trading sessions. The recent Cold Storage report showed stocks slightly below year ago levels, which may explain Monday's (7/25) price increase. Churning activity is moderate. Some producers are taking this opportunity to put up some unsalted butter. After a good week for cream demand, last week's spot cream sales slowed and the late-week cream supply was termed as "sloppy." However, as the hot weather persists in the Northeast, milk production and fat tests are falling. This could tighten fluid cream supplies. Butter stocks are fully adequate for current needs. Retail sales remain slow and food service orders are steady. Sales of bulk butter f.o.b. East, are reported in a range from flat market to 3.0 cents over the CME price/average.

CENTRAL

The market tone remains mixed as the cash price at the CME continues to adjust higher and lower. Traders and handlers feel that the cash price will probably fluctuate around current levels for the near term. Cream supplies have tightened. Reports indicate that the heat and humidity of the past week or so has greatly reduced milk output, thus milk volumes and fat levels within the milk supply have declined. Churning schedules are as active as available cream supplies. In most instances, cream supplies are from local sources as outside cream offerings have declined sharply. Current churning schedules are often lighter than current demand, thus inventoried stocks continue to be

used to fill orders. Butter demand is fair. Some retail feature activity is being reported as seasonal sweet corn is now in the marketplace. Food service orders are seasonally steady. Bulk butter for spot sale is being reported in the flat – 2 cents per pound over various pricing basis.

WEST

Butter prices had rebounded at the cash CME market after a sharp decline following the release of the June Milk Production report, but eased lower again today (7/27) in moderate trading. Demand for butter is about average for late July. There is not much aggressiveness, but buyers are looking at their fall needs. More cream interest is noted from outside the region and shipments to the Central and Eastern regions are occurring. The heat is sharply reducing the fat levels on milk receipts. Ice cream plants are using more cream than last year at this time. Quota imports of butter for the first six months of the year total 9.1 million pounds, down 11.9% from the same period last year. Imports have reached almost 60% of the annual total. Imports of High Tier (above quota with a penalty) butter total only 331,000 pounds compared to 14.1 million pounds last year. This year, domestic prices are not high enough to enable High Tier imports to come in and the numbers work. U.S. Cold Storage holdings of butter at the end of June total 181.9 million pounds, down 4% or 7.3 million pounds from last year. This level is below the six year average for this time of year. The June increase was only 3.8 million pounds compared to the six year average of 5.9 million pounds. CME weekly butter stocks increased by 630,000 pounds last week to stand at 96.8 million pounds. This is the first increase in stocks in six weeks. Stocks trail last year by 13.7 million pounds. Bulk butter prices range from flat to 3 cents under based on the CME with various time frames and averages.

NASS DAIRY PRODUCT PRICES

U.S. AVERAGES AND TOTAL POUNDS

WEEK ENDING	CHEESE		NDM	BUTTER	DRY WHEY
	40# BLOCKS	38% MOISTURE BARRELS			
JULY 23	1.5357	1.5146	0.9440	1.6138	0.2819
	8,610,378	10,046,641	15,825,973	2,788,819	9,958,484

Further data and revisions may be found on the internet at: <http://jan.mannlib.cornell.edu/reports/nassr/price/dairy>

CHEESE MARKETS

NORTHEAST

Prices are moderately lower. However, cheese prices (through 7/25) at the CME have rebounded during the last two trading sessions. This may be due in part to the most recent *Cold Storage* report and the lower yields of incoming milk. The recent hot weather is to blame for declining milk production and component levels in the milk. Cheese production is mostly steady, except for the lower yields reported by most contacts. Cheese demand is expected to improve as prices will often be based on last week's CME average. That, coupled with increasing prices this week, has more buyers hurrying to beat expected price jumps next week. Cheese stocks range from light to adequate depending on variety. Retail sales are mostly slow to fair while food service orders re mostly steady.

WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Cheddar 10# Prints	:	1.5450-2.0650
Cheddar Single Daisies	:	1.5025-1.9775
Cheddar 40# Block	:	1.6050-1.8750
Process 5# Loaf	:	1.6350-1.8425
Process 5# Sliced	:	1.6550-1.8700
Muenster	:	1.6175-1.8200
Grade A Swiss Cuts 10 - 14#	:	2.4500-2.6500

MIDWEST

The cheese market is unsettled though with a firm undertone. Cash cheese prices have recovered from the June milk production estimate. Some in the industry question whether a bigger change may come from the executive duty change at a large cooperative. Current weekly cash cheese prices at the Chicago Mercantile Exchange are within a few cents of comparable year ago levels. The anticipation of tighter milk and cheese supplies as schools reopen is keeping the prospect of somewhat higher prices in many forecasts though some are scaling back estimates. Current natural demand is generally fair at best. Cheddar and American styles remain close to in balance even as some buyers ease back on committed volumes. With reduced production, many plants are just about staying even with the demand slowdown. Mozzarella remains long. Process movement is fair to good for summer. Large shipments of natural and process items to CCC for schools and other feeding programs are absorbing good volumes for suppliers contracted for delivery in July and August. The Upper Midwest Milk Market Administrator's June average butterfat (3.58%) and protein test (2.92%) are below recent years with most plant operators expecting further reductions in July due to the frequent high temperatures and humidity. Cheese plant milk intakes and yields are sharply lower in recent weeks.

WISCONSIN WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Process American 5# Loaf	:	1.6275-1.9700
Brick And/Or Muenster 5#	:	1.9800-2.0150
Cheddar 40# Block	:	1.8150-2.2650
Monterey Jack 10#	:	2.0300-2.2650
Blue 5#	:	2.3100-2.6900
Mozzarella 5 - 6# (Low Moisture, Part Skim)	:	1.6425-2.3650
Grade A Swiss Cuts 6 - 9#	:	2.4300-2.8700

WEEKLY COLD STORAGE HOLDINGS-SELECTED STORAGE CENTERS
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS

	BUTTER	:	CHEESE
07/25/05	53,529	:	148,867
07/01/05	55,272	:	146,912
CHANGE	-1,743	:	1,955
% CHANGE	-3	:	1

WEST

Block cheese prices at the cash CME market had started to recover after the sharp decline last week after the release of the *Milk Production* report, but fell back a penny today (7/26). The *Cold Storage* report released this week is viewed as supportive of the market. American cheese stocks at the end of June total 577.6 million pounds, down 2% or 13.0 million pounds from last year. Stocks actually declined during June while the six year average indicates a normal increase of 11.7 million pounds. Demand for current cheese is excellent this week as the weekly average price is down a bit and it is expected to increase next week. Cheese output is falling more rapidly and producers are looking for additional milk supplies or solids to fortify the vat. Quota imports of cheese for the first six months of the year total 137.5 million pounds, up slightly from last year. Imports have now reached 46% of the annual quota. Imports of High Tier (above quota and with a penalty) cheese for the period total 11.5 million pounds, down more than 57% from the same six months last year. Prices are not high enough domestically to support High Tier imports at this time like were noted last year.

WHOLESALE SELLING PRICES: DELIVERED, DOLLARS PER POUND
(1000 - 5000 POUNDS MIXED LOTS)

Process 5# Loaf	:	1.5800-1.8375
Cheddar 40# Block	:	1.5850-1.9375
Cheddar 10# Cuts	:	1.7650-1.9850
Monterey Jack 10#	:	1.7750-1.9350
Grade A Swiss Cuts 6 - 9#	:	2.2500-2.7000

FOREIGN

Prices are unchanged to lower. Demand is typical for this time of year. Supplies of most cheeses are adequate to meet current needs. Recent reports indicate that imports of cheese subject to licensing during the first six months of 2005 total 62.383 million Kg, 0.5% more than the same period last year. During that same period, imports of high-tier cheese totaled 5.233 million Kg, 57.3% less than the same period a year ago.

WHOLESALE SELLING PRICES: FOB DISTRIBUTORS DOCK
DOLLARS PER POUND (1000 - 5000 POUNDS, MIXED LOTS)

VARIETY	NEW YORK	
	IMPORTED	DOMESTIC
Roquefort	TFEWR	-0-
Blue	2.6400-4.6900	1.8575-3.3475*
Gorgonzola	3.6900-6.0900	2.3700-2.4900*
Parmesan (Italy)	TFEWR	3.2725-3.3800*
Romano (Italy)	2.1000-3.2500	-0-
Provolone (Italy)	3.4400-6.0900	1.8600-2.0950*
Romano (Cows Milk)	-0-	3.0550-5.2200*
Sardo Romano (Argentine)	2.8500-3.2900	-0-
Reggianito (Argentine)	2.6900-3.2900	-0-
Jarlsberg-(Brand)	3.1200-4.1500	-0-
Swiss Cuts Switzerland	-0-	2.4500-2.6500
Swiss Cuts Finnish	2.5900-2.8500	-0-
Swiss Cuts Austrian	TFEWR	-0-
Edam	:	:
2 Pound	TFEWR	-0-
4 Pound	2.1900-3.5600	-0-
Gouda, Large	TFEWR	-0-
Gouda, Baby (\$/Dozen)	:	:
10 Ounce	27.8000-31.7000	-0-

* = Price change.

FLUID MILK AND CREAM

E A S T

Spot shipments of Grade A milk into or out of Florida and other Southeastern states

	THIS WEEK		LAST WEEK		LAST YEAR	
	IN	OUT	IN	OUT	IN	OUT
FLORIDA	0	0	0	0	46	0
SOUTHEAST STATES	0	0	0	17	0	0

The base price for Class I milk for August 2005 is \$14.44, up \$0.55 from July. A Class I differential specific to each pricing point (county) is added to the base price to determine the applicable Class I price. The Class II skim milk price for August is \$7.81, up \$.08 from July. The hot weather of the past two-three weeks is taking its toll on the cows and milk flow. Most contacts are commenting on how rapidly milk production is coming down. Some areas of the Southeast estimate that the volumes of milk received from farms dipped as much as 15-20% in the past week. In the Northeast, milk output is also decreasing at faster rates, but scattered areas (the far north) are seeing some rebounding starting to take place. All contacts are commenting on the low fat and protein levels on the incoming milk. This is typical during the summer and especially during such a prolonged period of hot weather like the East is experiencing. Milk supplies are tighter and manufacturing plants are no longer pressed to process milk. Plants that extended schedules last week to handle all the milk are able, this week, to drop a day or two from the schedule. Balancing plants in the Southeast that were running daily, as recently as last week, are down to just weekend milk this week. It has been a sudden turn around in the milk supply. Class I milk demand is mostly steady, but with schools in the Southeast set to reopen next week and the week after, bottlers are expected to "start up" school lunch milk late this week. The condensed skim market is little changed and prices are steady. The fluid cream market has firmed significantly since last week. Contacts comment that cream was a little sloppy late last week, but made an abrupt about face since then. Supplies are tight and demand has improved. More than one report indicates that loads for immediate pick up and delivery are hard to find. The lower fat tests on incoming milk are also a major factor in the tighter cream supply. With the hot weather, some long-haul loads are arriving at temperatures above allowable levels and these loads need to be replaced and diverted to other outlets. Spot prices are often lower, which may help explain the improved demand. Last week's cash butter average dipped 3.42 cents and multiples are unchanged. However, fewer sales were noted at the bottom of the range as the week progressed. Ice cream production and sales are seasonal. Some producers are operating at near capacity levels. The hot weather has really given a boost to soft serve mix sales. Cream cheese production is increasing slightly as most producers are looking for more cream. Churning activity is sharply lighter.

FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, \$ PER LB BUTTERFAT

F.O.B. PRODUCING PLANTS: NORTHEAST	-	1.9916-2.2625
DELIVERED EQUIVALENT ATLANTA	-	2.0235-2.2944 M 2.1690-2.2306
F.O.B. PRODUCING PLANTS: UPPER MIDWEST	-	2.0076-2.1350

PRICES OF CONDENSED SKIM, \$ PER LB SOLIDS

F.O.B. PRODUCING PLANTS:

NORTHEAST- CLASS II - INCLUDES MONTHLY FORMULA PRICES	-	.9900-1.0500
NORTHEAST- CLASS III - SPOT PRICES	-	1.1000-1.1700

M I D W E S T

Class I demand is steady to just occasionally slightly improved where promotions are underway. Handlers in the upper Midwest order are preparing for August and the start of qualifying. Finding a truck/trucker to move extra milk has become a tougher problem even before the Southern milk migration starts. A few handlers were already taking extra volumes for bottlers late this week, perhaps to cover for shipments to the Southeast. Manufacturing milk interest is improving and prices continue to move higher. Volumes available for sale are declining rapidly. Reported spot milk prices range from class delivered to about \$1.25 net fob. Cream demand is uneven though most ice cream operations continue to operate on heavy seasonal schedules. Extremely high heat indices (many well over 100) through much of the region over the past week caused more substantial declines in milk receipts and lower fat and protein tests on incoming loads though temperatures have moderated. Loads coming into plants were sharply lower because of the heat. However, by midweek, cooler temperature prevailed and some rebounding was

occurring. Some sharp declines in July plant milk receipts were mentioned (10%+ area) from June. Much of the milk (high fat brown cow herds the exception) is entering plants at under 3.5% test with protein tests also real low, at least in upper parts of the region. Additional rain aided recovering crops though in some areas, corn is already beyond recovery. Most lawns that were not watered are also turning green again. Almost all of Illinois was declared a drought disaster area. Much of the corn crop still growing is well ahead of normal maturity due to the warmer than normal temperatures.

WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

	JULY 21 - 27	PREVIOUS YEAR
SLAUGHTER COWS	\$ 49.00- 54.50	\$ 55.00- 64.50
REPLACEMENT HEIFER CALVES	\$300.00-680.00	\$380.00-600.00

SOUTH ST. PAUL TERMINAL AUCTION MARKET (PER CWT.)

	JULY 21 - 27	PREVIOUS YEAR
SLAUGHTER COWS	\$ 51.00- 57.00	\$ 57.50- 66.00

W E S T

According to the recently released *Milk Production* report U.S. output for the first six months of the year is up 2.6% from the same period in 2004. Six month output for selected Western states compared to last year is as follows: Arizona +3.2%, California +3.3%, Colorado +6.2%, Idaho +10.5%, New Mexico -0.7%, Oregon +1.1%, and Washington +2.0%. June 2005 POOL RECEIPTS of milk in CALIFORNIA total 3.02 billion pounds, 4.7% higher than last year. The June blend price, at a fat test of 3.56%, is \$13.35, 11 cents lower than May and \$3.00 less than June 2004. The percentage of receipts used in Class I products is 14.41%. The June quota price is \$14.56 and the over quota price is \$12.86. These prices are 4 cents lower than May and \$2.90 less than a year earlier. Weather conditions continue to impact milk cows and ultimately milk production across most of CALIFORNIA. Daytime temperatures are above 100 degrees in the producing regions of the Central Valley and there is not much relief at night. Cows are not eating well and this is affecting milk volumes and solids. Intakes at plants are lower than during the last several weeks. Some locations are seeing declines moderating. Drops in milk in the southern and northern producing areas are also common. Bottled milk demand is mostly light with sales helping some bottlers' volumes. Load weight declines are common with less milk and solids. Most processors are looking for additional milk or components to fill in for shortages. ARIZONA milk output continues to decline. Weather remains a factor even as temperatures ease, but remain over 100 degrees for daytime highs. Conditions are still stressing animals. Milk receipts are commonly 5 - 10% lower in some areas from a few weeks ago. More fluid milk orders are being taken with retail stores having milk specials. NEW MEXICO milk production is trending lower as a result of heat and humidity. The cumulative impact has caught up with the cows and milk is down several percentage points. Levels remain higher than last year. The milk supply is easier to handle as the levels decline and less is needed to be shipped to be balanced. Bottlers are moving more fluid milk with sales and reorders occurring. Haying has moved into the fourth cutting and the quality still making premium. Hay prices are steady. The CREAM market is unsettled. Demand is fair to good for the limited offerings, but the fluctuations in the butter market are impacting interest. Ice cream accounts are active in buying extra loads. Butter churners want extra cream to make butter for later needs. The CME butter price closed at \$1.5900 on July 27, up 3 cents from last week. The price fluctuations are affecting cream basing points. Western FOB multiples range from 118 to 128 and vary depending on class usage and basing point. Milk production continues to hold relatively steady in the PACIFIC NORTHWEST. Conditions have warmed, but not to the extent to stress the milking herd. Plants continue to run on steady operating schedules. Contacts do wonder if the lower quality, expensive hay will have an impact on production as we head into fall. Second cutting hay is becoming available, but it is not testing very well in general across the region. Prices are noted from \$115-135 in the field and delivering between \$150-165. Heat is beginning to cause more stress in the milking herds of UTAH and IDAHO. Temperatures above 100 degrees are common this summer and there were none last year. Some contacts are reporting that humidity is becoming more of an issue also. Milk receipts at plants are declining along with the fat and protein tests. The test reduction is much more pronounced this year than last. Work on second cutting hay and harvesting small grain is starting. Hay prices are running between \$105-120 in the field in the two states.

NDM, BUTTERMILK & WHOLE MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

NONFAT DRY MILK - CENTRAL AND EAST

CENTRAL: Prices are changed on low heat; steady to higher on high heat. Surplus milk supplies in the Central region are declining at a rapid pace. Production levels are lighter as some manufacturers are sending their surplus milk to cheese rather than to their butter/powder plants. Stocks at the producer level are fairly well balanced and some are holding stocks with confidence. Earlier this year, some industry pundits predicted heavy exports and tight supplies late in the year. Based on these predictions, some buyers slowly accumulated stocks and now are not actively in the market. The good export demand and recent sharp drop in milk production, and school openings in early August appear to be supporting the above supply predictions. Spot needs are often met on the resale market and reports of "government" powder being offered on the market are keeping inquiries at the producer level relatively light. Also, there have been more comments about animal feed NDM (denatured, government program powder) being offered.

EAST: Prices are mostly steady as price indexes moved minimally higher. Eastern drying levels are lighter as the effects of the recent heat wave are being seen in milk production. Balancing plants in the Southeast that had been running daily since late spring are now down to just weekend milk. In the Northeast, surplus milk volumes are lighter and the pressure on butter/powder plants has eased significantly. Some dryers continue to operate daily, but the volumes dried are lighter. Most Eastern plants are still trying to catch up with orders and have little available for immediate spot sale. The market tone remains firm. Plant stocks remain balanced. Demand is still good, but not overly aggressive. Most spot needs continue to be filled in the resale side of the market.

F.O.B. CENTRAL/EAST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUMHEAT: .9550 - 1.0150 MOSTLY: .9800 - 1.0000
 HIGHHEAT: .9900 - 1.1000

NONFAT DRY MILK - WEST

Western low/medium heat nonfat dry milk prices are steady for the range series while higher for the mostly series. Demand is slow to fair. Interest into cheese accounts varies as some producers are actively fortifying vats, while others have stopped the process. They are balancing the effects of milk supplies and cheese prices. Exporting is moving scheduled volumes of powder. There is no word on what the extent or effect a potential Mexican tariff on dairy powders could or will have. Drying schedules are lower in the southern half of the region as heat has dropped milk production. Condensed skim sales to ice cream accounts are higher and seasonally active. Inventories are steady with most producers content with where the levels are. Western high heat NDM prices are unchanged. The trading levels are light with demand mainly being filled via contracts. The sense is that supplies could be in better shape as milk declines and volumes moving through dryers are lighter. Stocks are mostly light.

F.O.B. WEST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUMHEAT: .9175 - .9800 MOSTLY: .9300 - .9450
 HIGHHEAT: .9500 - .9800

CALIFORNIA MANUFACTURING PLANTS - NDM

WEEK ENDING	PRICE	TOTAL SALES	SALES TO CCC
July 22	\$.9282	6,929,306	0
July 15	\$.9179	7,998,828	0

Prices are weighted averages for Extra Grade and Grade A Nonfat Dry Milk, f.o.b. California manufacturing plants. Prices for both periods were influenced by effects of long-term contract sales. Total sales (pounds) include sales to CCC. Compiled by Dairy Marketing Branch, California Department of Food and Agriculture.

DRY BUTTERMILK - CENTRAL

Prices are steady and still nominal. The market tone is little changed. Production is often lighter as churning activity has declined due to tighter volumes of excess cream. Also, liquid/condensed buttermilk sales are improving seasonally. Producer stocks are light. As many contacts expect production to remain light through early fall any inventories are held with more confidence. Spot trade is reported as very slow.

F.O.B. CENTRAL: .9600 - 1.0400

DRY BUTTERMILK - NORTHEAST AND SOUTHEAST

Prices and the market tone are unchanged. Northeastern prices remain nominal. Production levels are lighter as churning activity has slowed significantly since late last week. The slower butter production and continued good demand for liquid/condensed buttermilk is keeping drying schedules to a minimum. Plant stocks range from light to closely balanced. Demand for dry buttermilk is just fair.

F.O.B. NORTHEAST: .9300 - 1.0050
 DELVDSOUTHEAST: .9800 - 1.0600

DRY BUTTERMILK - WEST

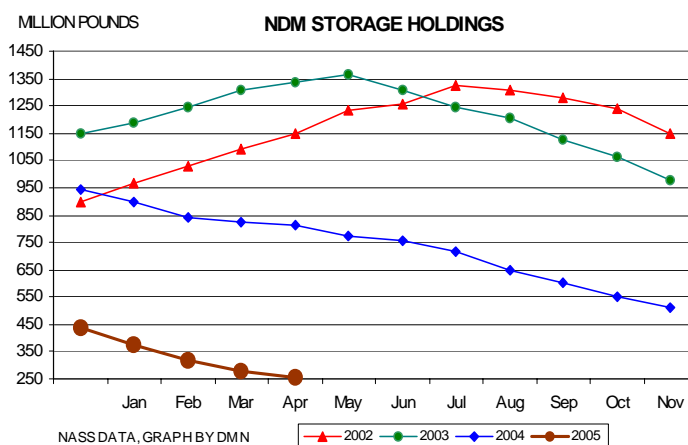
The Western range and mostly price series for dry buttermilk are unchanged and reflect balanced market conditions. Demand is fair with some contacts noting weakness while others note better interest. The contrasts depend on price, location, and customer base. Some producers are exploring exporting of extra powder. Drying schedules are declining where less cream is entering churns and less condensed is available. Inventory levels are holding at generally light levels.

F.O.B. WEST: .9025 - .9625 MOSTLY: .9025 - .9100

DRY WHOLE MILK - NATIONAL

Prices are unchanged and remain nominal. The market tone is steady. Production is light, but as milk volumes ebb, dryer time is available for those producers thinking about making a little dry whole milk. Demand is steady and remains mostly contractual. Competition from imported whole milk powder continues to be noted at prices slightly below the bottom of the range.

F.O.B. PRODUCING PLANT: 1.2500 - 1.4100



WHEY, CASEIN & EVAPORATED MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

DRY WHEY - CENTRAL

Prices are unchanged to occasionally higher on a steady, relatively firm market. Few spot sales are reported. Most market activity is either contracts or resale. Production levels are steady to lighter as less milk is available to cheese makers. The recent hot weather has significantly lowered milk production and yields, both of which are being felt at cheese plants. Producer stocks are tight. Resellers often have some inventories, but these are being held for regular or existing accounts. New spot inquiries are often turned away. Activity in the animal feed market is moderate and little dry whey is being traded. Feed manufacturers continue to look to other products like lactose or permeate as less expensive alternatives to whey powder. Supplies of milk replacer whey remain short of buyer interest. Milk replacer prices are nominal.

F.O.B. CENTRAL: .2700 - .2825 MOSTLY: .2700 - .2750
F.O.B. CENTRAL: ANIMAL FEED MILK REPLACER: .2400 - .2600

DRY WHEY - NORTHEAST AND SOUTHEAST

Prices are mostly steady and the Northeast price remains nominal. The market tone is unchanged. Cheese output in the Northeast is steady to lighter. Production of dry whey is lighter as one operation is now in the first week of a three-week renovation project. Offerings direct from producers remain limited and with milk supplies dropping, most cheese makers see less cheese and whey output in the weeks ahead. Traders continue to report little or no market activity. Apparently, the dog days of summer are here.

F.O.B. NORTHEAST: EXTRA GRADE AND GRADE A: .2775 - .3000
DELVD SOUTHEAST: .2950 - .3175

DRY WHEY - WEST

The price range for Western whey powder is steady to moderately higher. The mostly average held steady with prices moving both higher and lower. Powder supplies continue to be in a balanced position. Some producers and sellers are becoming more aggressive in marketing their powder. Some buyers are buying smaller volumes in a hand to mouth pattern as prices are higher than they had planned for. Whey production is declining seasonally because of the summer stress reducing milk supplies.

NONHYGROSCOPIC: .2900 - .3325 MOSTLY: .3000 - .3200

WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST

Prices are unchanged on a steady, firm market. Contacts comment that supplies are a little more available this week. Some feel that last week's trade show discussions spurred some resellers to clear a little inventory while prices are high. Others comment that the extra offers, particularly for animal feed, were due to production issues at a plant and several "extra" loads were offered into the feed market. Offerings for food use remain tight. Demand is good, but spot purchases direct from the producer are limited. Offerings of 80% WPC are also noted from some plants at competitive prices, but tight at others. Demand is very light, especially from the feed sector. However, some producers do continue to get inquiries, but have little or no product to offer.

F.O.B. EXTRA GRADE 34% PROTEIN: .8950 - 1.0000 MOSTLY: .8950 - .9200

LACTOSE - CENTRAL AND WEST

Prices are unchanged on a firm market. Spot trading activity remains light. Production is unchanged and generally geared to meeting contract shipping schedules. Feed buyers continue to look at lactose as an alternative to dry whey or permeate. Feed grade supplies are limited for the good interest.

Including spot sales and up to 3 month contracts. Mesh size 30 - 100.
F.O.B. EDIBLE: .1800 - .2200 MOSTLY: .1900 - .2100

CASEIN - NATIONAL

Casein prices and market conditions remain firm. Most suppliers and handlers continue to indicate that future developments in the casein market depend greatly on how the upcoming Oceania production season develops. At this point, European sourced supplies are in good balance with need. European producers and handlers state that the production season has been and continues to be strong. Stocks are in much better position than many producers anticipated. Domestic buyers here in the States indicate that they are getting by with their contracted volumes, but are still having difficulty in securing additional spot needs. Higher than desired prices and the tight supply situation of recent months, have many buyers still uncomfortable with where this market is going for the future.

SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE F.O.B., U.S. WAREHOUSE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

RENNET: 3.2700 - 3.4500
ACID: 3.2700 - 3.4000

EVAPORATED MILK - NATIONAL

Prices are steady and the market tone is unchanged. Production levels are often lighter as milk supplies tighten in many parts of the country. Reports indicate that off-farm milk deliveries declined as much as 10-15% in the past week. There is little change in the market and it remains highly competitive as there is still some "jockeying" for accounts.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES \$19.50 - 30.00

Excluding promotional and other sales allowances. Included new price announcements.

MONTHLY COLD STORAGE REPORT – TOTAL U.S. STOCKS

NOTE: Data for this report is collected from public, private and semiprivate warehouses, apple houses, and meat packing plants where food products are generally stored for 30 days or more. Commodities in space owned or leased and operated by the armed services are not reported. Food stocks held under bond are included in the storage data.

All stocks in thousand pounds except where otherwise indicated

U.S. HOLDINGS OF DAIRY PRODUCTS

COMMODITY	MAY 31, 2003	MAY 31, 2004	REVISED MAY 31, 2005	JUNE 30, 2003	JUNE 30, 2004	JUNE 30, 2005
Butter	297,959	178,744	178,049	301,425	189,183	181,888
Cheese, Natural American	538,513	558,823	577,686	549,984	590,544	577,564
Cheese, Swiss	26,596	26,079	23,540	26,042	23,958	24,947
Cheese, Other Natural	225,928	219,557	209,422	224,072	227,545	213,108
Total Cheese	791,037	804,459	810,648	800,098	842,047	815,619

U.S. GOVERNMENT OWNED COLD STORAGE HOLDINGS

Butter	8,938	255	224	10,779	155	177
Natural American Cheese	2,543	9,858	1,134	3,757	8,658	1,037

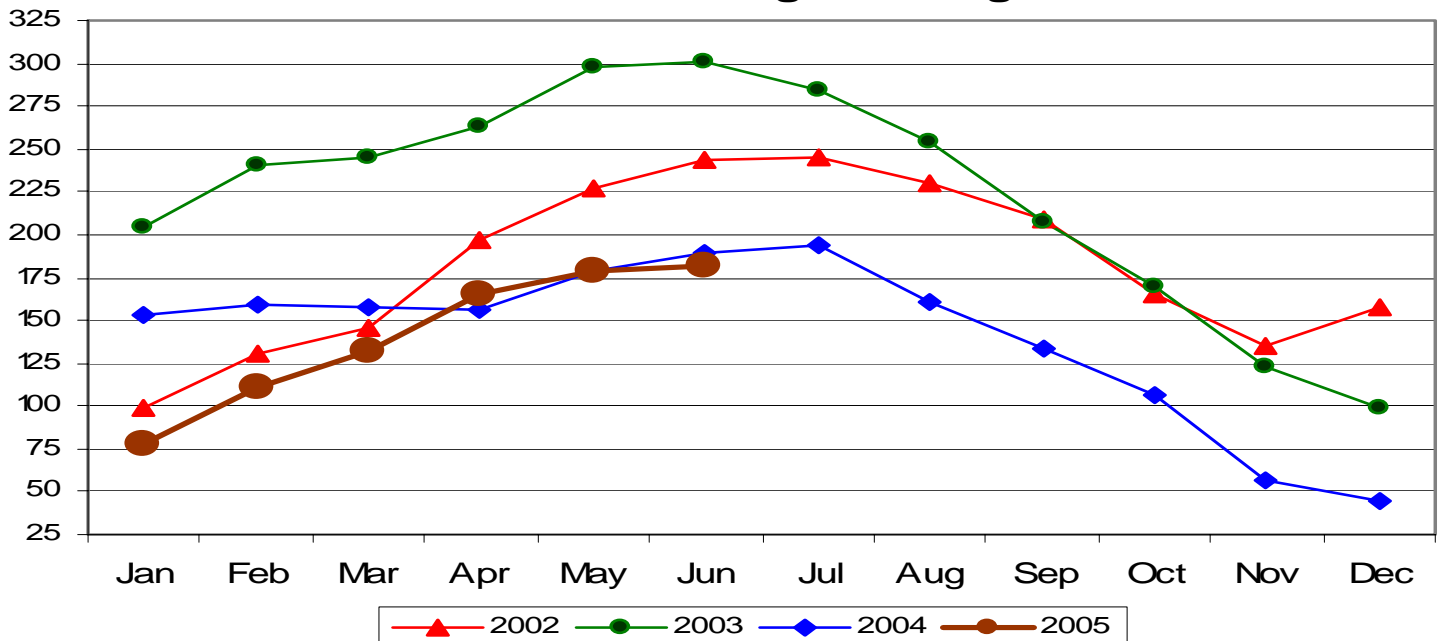
JUNE STORAGE HOLDINGS BY REGION

REGION	Natural American Cheese			Butter *			Other Natural Cheese		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
New England	22,292	25,194	24,136	---	---	---	314	322	299
Middle Atlantic	57,689	59,141	54,439	---	---	---	15,679	19,184	12,388
East North Central	222,596	229,719	230,264	---	---	---	129,654	128,382	125,051
West North Central	135,337	132,809	135,754	---	---	---	58,174	56,549	54,312
South Atlantic	561	9,497	5,652	---	---	---	2,870	128	125
East South Central	265	87	83	---	---	---	1,795	2,519	2,609
West South Central	1,763	5,758	3,952	---	---	---	184	142	135
Mountain	15,337	32,580	41,039	---	---	---	2,187	5,871	4,035
Pacific	94,144	95,759	82,245	---	---	---	13,215	14,448	14,154
TOTAL	549,984	590,544	577,564	301,425	189,183	181,888	224,072	227,545	213,108

*Regional breakdowns are not reported to avoid possible disclosure of individual operations.

Million Pounds

Butter Cold Storage Holdings



COMMERCIAL AND GOVERNMENT STORAGE HOLDINGS, JANUARY 2004 TO DATE

Month	Butter						Natural American Cheese						Nonfat Dry Milk					
	Total <u>1/</u>		Commercial		Government		Total <u>1/</u>		Commercial		Government		Total <u>1/ 2/</u>		Commercial		Government <u>2/</u>	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	Million Pounds						Million Pounds						Million Pounds					
January	77	152	77	151	<u>3/</u>	1	479	518	475	508	4	10	440	945	83	109	357	836
February	111	159	111	158	<u>3/</u>	1	497	533	494	523	3	10	374	896	79	95	296	800
March	132	158	132	158	<u>3/</u>	1	518	521	517	511	2	10	321	841	84	80	236	761
April	165	156	164	155	<u>3/</u>	<u>3/</u>	549	526	547	517	2	10	276	826	108	104	168	723
May	178	179	178	178	<u>3/</u>	<u>3/</u>	578	559	577	549	1	10	257	814	110	123	147	691
June	182	189	182	189	<u>3/</u>	<u>3/</u>	578	591	577	582	1	9		774		146		628
July		194		193	<u>3/</u>			616		609		7		755		161		594
August		161		161	<u>3/</u>			569		562		7		716		149		567
September		133		133	<u>3/</u>			554		547		6		650		127		523
October		107		107	<u>3/</u>			528		521		7		602		116		486
November		57		57	<u>3/</u>			481		476		5		552		94		458
December		45		45	<u>3/</u>			481		476		5		512		99		413

NA = Not available.

1/ Total may not add due to rounding. 2/ Includes instant nonfat dry milk. 3/ Less than 500,000 lbs.COMMERCIALLY OWNED COLD STORAGE HOLDINGS FOR THE UNITED STATES 1/

Commodity	May 31, 2003	May 31, 2004	May 31, 2005	Jun 30, 2003	Jun 30, 2004	Jun 30, 2005
	Thousand Pounds					
Butter	289,021	178,489	177,825	290,646	189,028	181,711
Natural American Cheese	535,970	548,965	576,552	546,227	581,886	576,527

1/ Total holdings minus Government owned holdings. For more information, see page 7 of this report.

SOURCE: "Cold Storage," Co St 1 (7-05) and "Dairy Products," Da 2-6 (7-05), Agricultural Statistics Board, National Agricultural Statistics Service; and "Summary of Processed Commodities in Store," Farm Service Agency.

FEDERAL MILK ORDER ADVANCE PRICES, AUGUST

Class I Base Price - Under the Federal milk order pricing system, the Class I base price for August 2005 is \$14.44 per cwt. This price is derived from the advanced Class III skim milk pricing factor of \$8.29 and the advanced butterfat pricing factor is \$1.8396. A Class I differential for each order's principal pricing point (county) is added to the base price to determine the Class I price. **Class II Price Information** - The advanced Class IV skim milk pricing factor is \$7.11. Thus, the Class II skim milk price for July is \$7.81 per cwt., and the Class II nonfat solids price is \$0.8678. **Product Price Averages** - The two-week product price averages for August are: butter \$1.6480, nonfat dry milk \$0.9377, cheese \$1.5224, and dry whey \$0.2796.

FEDERAL MILK ORDER CLASS I PRICE INFORMATION <u>1/</u> <u>2/</u>				
Federal Milk Order Marketing Area <u>3/</u>	Order Number	August 2005		
		Class I Price (3.5 %)	Class I Skim Milk Price	Class I Butterfat Price
		\$ per cwt.	\$ per cwt.	\$ per pound
Northeast (Boston) <u>4/</u>	001	17.69	11.54	1.8721
Appalachian (Charlotte) <u>5/</u>	005	17.54	11.39	1.8706
Southeast (Atlanta) <u>6/</u>	007	17.54	11.39	1.8706
Florida (Tampa) <u>7/</u>	006	18.44	12.29	1.8796
Midwest (Cleveland) <u>8/</u>	033	16.44	10.29	1.8596
Upper Midwest (Chicago) <u>9/</u>	030	16.24	10.09	1.8576
Central (Kansas City) <u>10/</u>	032	16.44	10.29	1.8596
Southwest (Dallas) <u>11/</u>	126	17.44	11.29	1.8696
Arizona-Las Vegas (Phoenix) <u>12/</u>	131	16.79	10.64	1.8631
Pacific Northwest (Seattle) <u>13/</u>	124	16.34	10.19	1.8586
All-Market Average		17.09	10.94	1.8661

1/ To convert the Class I price per 100 pounds to the Class I price per gallon, divide by 11.63--the approximate number of gallons in 100 pounds of milk. 2/ Note: The mandatory \$0.20 per cwt. processor assessment under the Fluid Milk Promotion Order is not included in the Class I prices shown on this table. 3/ Names in parentheses are the major city in the principal pricing point of the markets. 4/ Class I prices at other cities are: New York City, minus \$0.10; Philadelphia, minus \$0.20; Baltimore, minus \$0.25, and Washington, DC, minus \$0.25. 5/ Class I prices at other cities are: Knoxville, minus \$0.30 and Louisville, minus \$0.90. 6/ Class I prices at other cities are: New Orleans; plus \$0.50; Memphis, minus \$0.30; Nashville, minus \$0.50; and Springfield, Mo., minus \$0.90. 7/ Class I prices at other cities are: Orlando, same; Miami, plus \$0.30; and Jacksonville, minus \$0.30. 8/ Class I prices at other cities are: Indianapolis, same; Cincinnati, plus \$0.20; Pittsburgh, plus \$0.10; and Detroit, minus \$0.20. 9/ Class I prices at other cities are: Milwaukee, minus \$0.05; and Minneapolis, minus \$0.10. 10/ Class I prices at other cities are: Des Moines, minus \$0.20; Omaha, minus \$0.15; Oklahoma City, plus \$0.60; St. Louis, same; and Denver plus \$0.55. 11/ Class I prices at other cities are: Houston, plus \$0.60; San Antonio, plus \$0.45; Albuquerque, minus \$0.65; and El Paso, minus \$0.75. 12/ Class I price at Las Vegas is minus \$0.35. 13/ Class I prices at other cities are: Portland, same; and Spokane, same.

ANNOUNCED COOPERATIVE CLASS I PRICES FOR SELECTED CITIES IN FEDERAL MILK ORDERS, AUGUST 2005, WITH COMPARISONS ^{1/}

For August 2005, the all-city average announced cooperative Class I price was \$18.50 per cwt., \$1.53 higher than the Federal milk order Class I price average for these cities. The August cooperative Class I price was \$.51 higher than the July price, while the Federal order price was \$.55 higher. On an individual city basis, the difference between the Federal order and announced cooperative Class I price ranged from \$.15 in Phoenix, AZ, to \$2.69 in Chicago, IL and Milwaukee, WI. For August 2004, the all-city average announced cooperative Class I price was \$18.62, \$1.47 higher than the Federal order Class I price average for these cities.

City	August 2005		
	Announced Cooperative Class I Price	Federal Milk Order Class I Price	Difference
	Dollars per hundredweight, 3.5% butterfat		
Atlanta, GA	19.15	16.99	1.61
Baltimore, MD	19.24	16.89	1.80
Boston, MA	19.39	17.14	1.70
Charlotte, NC	19.15	16.99	1.61
Chicago, IL	18.93	15.69	2.69
Cincinnati, OH	18.50	16.09	1.86
Cleveland, OH	18.30	15.89	1.86
Dallas, TX	18.00	16.89	0.56
Denver, CO	17.84	16.44	0.85
Des Moines, IA	17.99	15.69	1.75
Detroit, MI	18.11	15.69	1.87
Hartford, CT	19.29	17.04	1.70
Houston, TX	18.60	17.49	0.56
Indianapolis, IN	18.30	15.89	1.86
Kansas City, MO	17.68	15.89	1.24
Louisville, KY	18.25	16.09	1.61
Memphis, TN	18.65	16.69	1.41
Miami, FL	21.42	18.19	2.68
Milwaukee, WI	18.88	15.64	2.69
Minneapolis, MN	18.13	15.59	1.99
New Orleans, LA	19.45	17.49	1.41
Oklahoma City, OK	17.65	16.49	0.61
Omaha, NE	17.74	15.74	1.45
Philadelphia, PA	19.56	16.94	2.07
Phoenix, AZ	16.94	16.24	0.15
Pittsburgh, PA	18.53	15.99	1.99
St. Louis, MO	17.99	15.89	1.55
Seattle, WA	16.76	15.79	0.42
Springfield, MO	17.25	16.09	0.61
Washington, DC	19.24	16.89	1.80
Simple Average	18.50	16.42	1.53

^{1/} This table contains information obtained from the Class I price announcements sent by the major cooperative in each city market to all handlers who buy milk from them. These over-order prices include charges for various services performed by the cooperative. In some instances, these over-order prices may not include all credits that may be allowed. These prices have not been verified as having been actually paid by handlers.

WORLD DAIRY SITUATION AND OUTLOOK

Summary - Global dairy markets continue to be stable as international dairy commodity prices continue to hold firm reflecting the relatively tight supply situation and strong import demand. Three key factors have played a role in the evolution of this situation; exchange rates particularly the decline in the value of the U.S. dollar, have increased European Union export prices, lower than anticipated milk production in Oceania, and reduced exportable supplies in the EU. Although the dollar has lately strengthened, world dairy prices resisted any declines as the EU embarked on a round of aggressive export restitution cuts in response to a well balanced domestic market and budgetary pressures. Prospects for the remainder of 2005 point to continued strength in international dairy prices despite the upcoming milk production season in Oceania. Although New Zealand milk production is likely to rebound substantially, Australian output will recover at a more moderate pace as cow numbers remain low following the severe drought in 2002/03. On the demand side, global economic growth is anticipated to expand at around 3.0 percent – down from the 3.9 percent registered in 2004 – but nevertheless a sufficient rate that will likely continue to fuel import demand. Consequently, while the upcoming Oceania production wave may provide some temporary relief, global dairy prices will likely remain strong for this year and probably the early part of 2006. The implication for U.S. dairy exporters is positive as the boom in U.S. exports, particularly nonfat dry milk, will likely be sustained throughout the remainder of this year and into 2006.

Dairy Production - The Australian milk production forecast for 2004/05 (July/June) has been adjusted down 2.9 percent from the previous projection reflecting dry conditions in the early part of 2005 that negatively affected some key dairy producing regions. If this forecast is realized then Australian milk output will drop 1.7 percent from the previous year and will mark the third consecutive year that Australian milk production has declined. For the forthcoming production season, recent climatic forecasts have shown marked improvement; reducing the threat of an “El Niño” year and indicating a greater probability of beneficial rains. Nevertheless, the continuation of the strong Australian dollar will serve to dilute export earnings from high global dairy prices and will continue to financially handicap Australian farmers. From a broader perspective, the reduced dairy herd means that even if milk/cow yields are improved significantly, total milk production will probably be well below levels attained in 2000-2002. Although New Zealand’s milk production 2004/05 (June/May) was initially expected to grow by 2.5 percent, the downward revision in the forecast caught markets by surprise. Milk output is now expected to drop by 2.5 percent as a result of slower than anticipated growth in the dairy herd and poor weather conditions that also led to flooding in some key producing regions. This is the first drop in New Zealand’s milk production recorded since the 1998/99 season. Assuming a return to normal weather conditions in the upcoming season, it is likely that New Zealand’s 2005/06 milk production will rebound completely as the size of the herd was unaffected. In fact, if milk/cow yields were to improve by 3 percent, total milk production would exceed the record levels posted in 2004/05. As in Australia, the strength of the New Zealand dollar has to some extent offset the benefits of a strong global dairy market; nevertheless, this is not expected to constrain production. In fact, Fonterra recently reported the second-highest payout to members since the formation of the cooperative in 2001 following a 4 percent rise in fiscal year revenue. EU-25 milk production is forecast to recover in 2005 by 0.7 percent following the drought-affected reduction in 2004. The increased milk output figure not only reflects favorable production conditions but also the changing use of milk from farm use to milk delivered to dairy plants within the EU-10 (i.e. new member states). Nevertheless, exportable supplies of major dairy commodities were reduced sharply as a result of the growing consumption of cheese. Since EU milk production is held in check by production quotas, the growth of cheese consumption and necessarily cheese production has been at the expense of surplus fluid milk that would traditionally be channeled into the production of whole milk powder (WMP), and to a lesser extent nonfat dry milk (NDM) and butter. In fact, intervention stocks of NDM – standing at 35,000 MT in June are reported to be fully committed and despite a cut in intervention prices, the domestic price of NDM is gaining strength. The U.S. 2005 milk production forecast has been raised marginally by 125,000 tons bringing the projected total milk production figure to 79.075 million tons – up nearly 2.1 percent from 2004. Despite the lack of replacement heifers, this gain primarily reflects increased milk per cow productivity as a result of the wider availability of bovine somatotropin, favorable milk feed price ratios, and good weather conditions. In the second quarter of 2005, milk production posted a gain of 3.3 percent compared to the same period last year.

Continued on page 12

WORLD DAIRY SITUATION AND OUTLOOK – (contd.)

Dairy Trade - The 2005 forecast for total cheese exports in selected countries is revised down as a result of a cut in New Zealand exports following a disappointing production season and a drop in EU exports. The latter is partly due to a revision of figures as data collected from the New Member States (NMS) is refined and also reflects the more limited availability of exportable supplies as a result of strong growth in domestic consumption. In terms of major cheese exporters it appears that cheese exports during the 2002-2005 period remained virtually stagnant suggesting that the recent global price increases are attributable primarily to import demand growth by major cheese importing countries. In fact, while not comprehensive in coverage, cheese imports in selected countries jumped by nearly 171,000 tons in the period 2000 through 2005. In terms of butter trade, revisions have been principally on the export side. The New Zealand 2005 export forecast has been adjusted down by 16 percent due to lower milk production. The longer term trend has been for a decline in butter exports as the focus has shifted to the higher returns gained from WMP and cheese exports. EU butter exports for 2004 and the 2005 forecast year have been adjusted upwards but the year-to-year change is negligible. EU butter production has been declining over the past several years and despite a drop in consumption, available supplies for the export market will likely remain limited. In fact, EU ending stocks for 2005 are forecast to drop by 22 percent. The 2005 NDM export forecast for selected countries has been revised down sharply by 6.2 percent from the last report due to a decline in the EU export forecast but more significantly, a substantial cut in the Oceania forecast; nearly 19 percent or some 91,000 tons. In contrast, the outlook for U.S. exports of NDM has improved markedly and is now projected to hit 250,000 tons – up 66 percent from the previous forecast and a gain of 8 percent over 2004. In the first five months of 2005, U.S. exports of NDM reached 150,000 tons compared to 61,000 tons over the same period in 2004. During this period, the bulk of U.S. NDM exports were shipped to Mexico (30 percent), Philippines, and Indonesia. Projected exports of WMP among major exporters for 2005 was reduced substantially by nearly 7.5 percent from the previous forecast largely reflecting the poor season in New Zealand. The export forecast for New Zealand WMP was lowered 12.4 percent and means that expected shipments of WMP are expected to decline by 10.6 percent compared to 2004. The EU export forecast was also pared-back due primarily to an expected 1 percent cut in WMP production for 2005. There are, however, indications that countries such as Argentina are becoming significant competitors to the EU. There is no official semi-annual update, but trade data indicates that for 2004, Argentine exports of WMP reached 175,000 tons with some 55,000 tons being shipped to Algeria – traditionally a EU market. For the Jan.-April period, Argentine shipments of WMP are running 18 percent ahead of the comparable period in 2004 and at that current pace will surpass 200,000 tons for 2005.

World Dairy Prices - The fundamental factors that set the stage for a rapid rise in international dairy prices continue to apply, i.e., tight supplies, a relatively weak dollar, and strong demand. Although the dollar value has lately strengthened, the anticipated drop in prices has been offset by the surprisingly aggressive round of EU export restitution cuts. With the peak spring-flush milk production season effectively over, the internal EU markets remain well balanced and prices are holding above intervention levels. Consequently, for the short term the EU is unlikely to reverse course and heavily promote dairy exports. Absent any adverse weather, the up-coming milk production season in Oceania should yield a surge in supplies particularly from New Zealand. These added volumes will undoubtedly test the market, however, global economic output for 2005, albeit more moderate, remains robust. In 2004, global GDP growth was estimated at 3.9 percent and for 2005 is expected to slip to around 3.0 percent. Nevertheless, key import markets such as China are forecast to post growth rates of approximately 9.0 percent (down only 0.5 percent from 2004) while the South-East Asian market will expand at around 5.0 percent. Therefore, it appears likely that import demand growth for dairy products will remain firm and the added supplies from Oceania will probably only have a moderate impact on global dairy prices. The outlook for the rest of 2005 remains bright, but given the cyclic nature of dairy markets the likelihood of a price decline in 2006 becomes more probable.

SOURCE: “Dairy: World Markets and Trade”, Circular Series, FD 1-05, July 2005, Foreign Agricultural Service, USDA. For more information contact Paul Kiendl at (202) 720-8870 and Marsha Sheeham at (202) 720-3690.

CONSUMER PRICE INDEX (CPI-U) AND AVERAGE RETAIL PRICES FOR SELECTED PRODUCTS, U.S. CITY AVERAGE ^{1/}

Month and Year	All Food		Dairy Products		Fresh Whole Milk		Cheese		Butter		Meat, Poultry, Fish and Eggs	
	CPI ^{2/}	Pct. Chg. ^{3/}	CPI ^{2/}	Pct. Chg. ^{3/}	CPI ^{2/}	Pct. Chg. ^{3/}	CPI ^{2/}	Pct. Chg. ^{3/}	CPI ^{2/}	Pct. Chg. ^{3/}	CPI ^{2/}	Pct. Chg. ^{3/}
APR 2005	190.2	3.1	182.2	4.7	184.1	7.5	184.2	4.9	186.7	2.6	184.7	3.1
MAY 2005	190.6	2.4	183.3	-1.4	185.8	-5.4	184.1	0.3	185.1	-8.4	185.0	2.2
JUN 2005	190.4	2.2	181.0	-4.1	182.7	-10.5	182.6	-1.7	178.9	-14.2	185.2	1.6
U.S. City Average Retail Prices												
Month	Whole Milk ^{4/}		Butter ^{5/}		Process Cheese ^{6/}		Natural Cheese ^{7/}		Ice Cream ^{8/}			
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	Dollars											
APRIL	3.225	2.906	3.404	3.353	3.840	3.848	4.449	4.134	3.772	3.815		
MAY	3.207	3.374	3.409	3.758	3.776	4.052	4.414	4.406	3.948	3.744		
JUNE	3.122	3.574	3.107	3.937	3.829	4.090	4.440	4.550	3.619	3.877		

^{1/} "CPI Detailed Report," "Consumer Prices: Energy and Food," BLS, U.S. Department of Labor. According to BLS, average prices are best used to measure the price level in a particular month. To measure price change over time, the CPI is more appropriate. ^{2/} The standard reference base period for these indexes is 1982-1984 = 100. ^{3/} Percent change over previous year. ^{4/} Per gallon. ^{5/} Per pound. Grade AA, salted, stick butter. ^{6/} Per pound, any size and type of package. ^{7/} Per pound, cheddar cheese in any size and type of package and variety (sharp, mild, smoked, etc.). ^{8/} Per 1/2 gallon, prepackaged regular.

COMMERCIAL DISAPPEARANCE: TOTAL MILK AND SELECTED DAIRY PRODUCTS—MARCH-MAY AND ANNUAL 2004-2005 ^{1/}

Item	Mar.-May 2004	Percent change ^{2/}	Mar.-May 2005	Percent change ^{2/}	Jan.-May 2004	Percent change ^{2/}	Jan.-May 2005	Percent change ^{2/}
	Million Pounds							
MILK								
Production	44,294	-2.0	45,780	4.5	72,296	-1.3	73,868	2.8
Marketings	44,012	-2.0	45,503	4.5	71,830	-1.3	73,412	2.9
Beginning Commercial Stocks ^{3/}	10,137	-15.8	8,720	-14.0	8,333	-15.8	7,154	-14.1
Imports ^{3/}	1,680	33.0	1,159	-31.0	2,428	17.0	2,051	-15.5
Total Supply ^{4/}	55,829	-4.1	55,382	0.0	82,591	-2.5	82,617	0.6
Ending Commercial Stocks ^{3/}	10,945	-17.7	11,119	1.6	10,945	-17.7	11,119	1.6
Net Removals ^{3/}	-8	-101.2	-5	-37.5	-92	-111.2	-32	-65.2
Commercial Disappearance ^{4/}	44,892	1.5	44,268	-0.4	71,738	1.6	71,530	0.4
SELECTED PRODUCTS ^{5/}								
Butter	314.3	0.7	297.6	-4.2	498.1	-0.9	479.0	-3.1
American Cheese	979.9	4.7	920.6	-5.1	1,562.8	4.4	1,533.7	-1.2
Other Cheese	1,409.2	5.9	1,425.6	2.3	2,282.3	6.4	2,336.5	3.1
Nonfat Dry Milk	427.6	95.9	338.7	-20.2	573.2	84.0	569.8	-0.1
Fluid Milk Products ^{6/}	13,695.6	-1.7	13,707.5	0.1	22,885.7	-2.0	22,690.8	-0.2

^{1/} Commercial disappearance includes civilian and military purchases of milk and dairy products for domestic and foreign use, but excludes farm household use and USDA donations of dairy products. Disappearance is a residual figure and therefore can be affected by any inaccuracies in estimating milk production, on-farm use, stocks, and imports. ^{2/} From year earlier on a daily average basis. ^{3/} Milk-equivalent, milkfat basis. ^{4/} Totals may not add because of rounding. ^{5/} Commercial disappearance in product pounds. ^{6/} Sales. Estimate based on actual sales in Federal milk order marketing areas and California. These sales figures have not been adjusted for calendar composition. **SOURCE:** Economic Research Service, USDA. Fluid milk products - Agricultural Marketing Service, USDA.

CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)

	FOR THE WEEK OF JULY 25 - 29, 2005			CUMULATIVE TOTALS		UNCOMMITTED INVENTORIES	
	TOTAL PURCHASES	CONTRACT ADJUSTMENTS	ADJUSTED PURCHASES	SINCE 10/01/04	SAME PERIOD LAST YEAR	WEEK ENDING 07/22/05	SAME PERIOD LAST YEAR
BUTTER							
Bulk	-0-	-0-	-0-	-0-	-42,309	-0-	-0-
Packaged	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-42,309	-0-	-0-
CHEESE							
Block	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Barrel	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Process	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-
NONFAT DRY MILK							
Nonfortified	-0-	-0-	-0-	31,817,269	325,523,669	-0-	533,397,000
Fortified	-0-	-0-	-0-	-0-	-119,048	-0-	46,391,000
TOTAL	-0-	-0-	-0-	31,817,269	325,404,621	-0-	579,788,000

MILK EQUIVALENT, FAT SOLIDS BASIS, OF ADJUSTED PURCHASES (MILLION POUNDS)

	MILKFAT* BASIS	SKIM** SOLIDS		MILKFAT* BASIS	SKIM** SOLIDS
WEEK OF JULY 25 - 29, 2005 =	0.0	0.0	COMPARABLE PERIOD IN 2004 =	0.5	25.3
CUMULATIVE SINCE OCTOBER 1, 2004 =	7.0	370.4	CUMULATIVE SAME PERIOD LAST YEAR =	70.7	3,787.7
CUMULATIVE JANUARY 1 - JULY 29, 2005 =	0.0	0.0	COMPARABLE CALENDAR YEAR 2004 =	45.2	2,438.4

* Factors used for Fat Solids Basis - Butter times 21.80; Cheese times 9.23; and Nonfat Dry Milk times 0.22

**Factors used for Skim Solids Basis - Butter times 0.12; Cheese times 9.90; and Nonfat Dry Milk times 11.64

CCC ADJUSTED PURCHASES SINCE 10/1/04 AND SAME PERIOD LAST YEAR (POUNDS) AND MILK EQUIVALENT AS A PERCENT OF TOTAL

REGION	BUTTER		CHEESE		NONFAT DRY MILK		MILK EQUIVALENT (%)	
	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04
CENTRAL	-0-	-0-	-0-	-0-	1,331,567	7,646,276	4.2	2.4
WEST	-0-	-42,309	-0-	-0-	29,415,099	313,474,571	92.4	96.3
EAST	-0-	-0-	-0-	-0-	1,070,603	4,283,774	3.4	1.3
TOTAL	-0-	-42,309	-0-	-0-	31,817,269	325,404,621	100.0	100.0

SUPPORT PURCHASE PRICES FOR DAIRY PRODUCTS PRODUCED ON OR AFTER NOVEMBER 15, 2002

MANUFACTURING MILK Average Test 3.67% - \$9.90 per cwt.

BUTTER Bulk \$1.0500 per pound; 1# Prints \$1.0850

CHEESE 40 & 60# Blocks \$1.1314 per pound; 500# Barrels \$1.1014; Process American 5# \$1.1889; Process Am. 2# \$1.2289

NONFAT DRY MILK Nonfortified \$.8000 per pound; Fortified \$.8100; Instant \$0.9625

U.S. Dairy & Total Cow Slaughter under Federal Inspection, by Regions, for Week Ending 07/09/05 & Comparable Week 2004

Regions* (000 HEAD)	U.S. TOTAL										% DAIRY OF ALL	
	1	2	3	4	5	6	7	8	9	10	WEEK	SINCE JAN 1
2005-Dairy	N.A.	0.6	N.A.	1.7	10.8	2.1	0.5	N.A.	9.9	1.3	32.5	1,185.8
2004-Dairy	0.1	0.7	N.A.	1.8	13.8	2.1	0.5	N.A.	8.8	1.0	34.7	1,244.5
2005-All cows	N.A.	0.6	N.A.	8.7	21.5	10.8	9.0	N.A.	11.3	1.5	71.7	2,510.5
2004-All cows	0.1	0.7	N.A.	8.9	22.5	10.6	8.7	N.A.	10.7	1.5	72.5	2,680.2

SOURCE: The slaughter data are gathered and tabulated in a cooperative effort by the Agricultural Marketing Service, The Food Safety and Inspection Service, and the National Agricultural Statistics Service, all of USDA. 1/ States included in regions are as follows: Region 1--ME, NH, VT, CT, MA, and RI; Region 2--NY and NJ; Region 3--DE, PA, WV, VA, and MD; Region 4--KY, TN, NC, SC, GA, AL, MS, and FL; Region 5--MI, OH, IN, IL, WI, and MN; Region 6--TX, OK, NM, AR, and LA; Region 7--IA, NB, KS, and MO; Region 8--MT, WY, CO, UT, ND, and SD; Region 9--CA, NV, AZ, and HA; Region 10--ID, OR, and WA. 2/ Totals may not add due to rounding.

CLASS III MILK PRICES, (3.5% BF)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2002	11.87	11.63	10.65	10.85	10.82	10.09	9.33	9.54	9.92	10.72	9.84	9.74
2003	9.78	9.66	9.11	9.41	9.71	9.75	11.78	13.80	14.30	14.39	13.47	11.87
2004	11.61	11.89	14.49	19.66	20.58	17.68	14.85	14.04	14.72	14.16	14.89	16.14

FEDERAL MILK ORDER CLASS PRICES FOR 2005 (3.5% BF)

CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
I 1/	16.65	13.79	15.43	14.13	14.80	13.62	13.89	14.44				
II	13.04	13.36	13.25	13.24	12.78	13.06						
III	14.14	14.70	14.08	14.61	13.77	13.92						
IV	12.52	12.74	12.66	12.61	12.20	12.33						

1/ Specific order differentials to be added to this base price are located at www.ams.usda.gov/dyfm05/mib/cls_prod_cmp_pr.htm